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February 10, 2021

Statement by Ms. Shortino and Ms. Robitaille on Indonesia
(Preliminary)
Executive Board Meeting
February 12, 2021

We thank staff for their detailed reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative buff. Indonesia's improvements in macroeconomic policies over the past few years enabled the authorities to address the health and economic effects of the pandemic with fiscal and monetary policy easing. **We welcome that the authorities are not only continuing accommodative macroeconomic policies to promote economic recovery but also are pursuing reforms that will lift long-term growth.**

The fiscal policy response has been timely and responsive to evolving shocks. Although there were delays on executing pandemic support measures as of late last year, we welcome the authorities' success in delivering support to vulnerable households and small businesses. We commend the authorities for strengthening governance and transparency by publishing a monthly report on COVID-19-related spending and by planning to undertake an *ex-post* audit. We are encouraged that the authorities agree on the need to gradually return to a prudent fiscal stance once recovery is complete, particularly with regards to raising tax revenues which would enable the authorities to avoid sacrificing investment in infrastructure and education. *Could staff provide an estimate of the revenue that would be raised through the relatively modest tax measures identified by the authorities to date?*

We agree with staff that there is room for further policy rate cuts if recovery falters. We would have welcomed more discussion from staff on the benefits versus the risks of further primary market purchases of government bonds by Bank Indonesia (BI). Staff recommend that the authorities establish a framework to manage risks associated with bond purchases. In our view, staff's recommendation could go further by recommending the framework reinforce the primacy of BI's inflation goal. We support the authorities' intention to protect the operational independence of BI in an upcoming reform of the financial sector regulatory regime, but we feel that a strong statement that the 3 percent inflation target remains the primary goal of the BI would bolster de facto central bank independence.

We welcome that to some extent the exchange rate has been allowed to function as a shock absorber, even though concerns about the effects of exchange rate depreciation on corporate net worth continue to constrain monetary policy. *In light of staff's discussions on corporate sector exposure to exchange rate risk, do the authorities plan to tighten prudential regulation of corporate FX borrowing? Were they to do so, what measures would staff recommend?* We urge continued vigilance on other risks to financial stability. In that vein, we strongly support staff's recommendation to ensure that banks continue to properly classify and monitor loans. Financial sector strains from the pandemic have highlighted the need to upgrade crisis management and resolution frameworks in line with prior Fund recommendations.

We urge the authorities to maintain their strong reform momentum with a focus on labor market flexibility, openness to trade and direct investment, and regulatory simplification. Although the omnibus reform law that was passed last year furthers these goals, the implementing regulations have not yet been enacted. We echo staff's recommendation to strengthen the governance standards of the nascent Nusantara Investment Authority (NIA), and would welcome staff analysis of the NIA's performance in upcoming Article IV reviews. We appreciate staff's discussion of the climate change mitigation and adaptation measures Indonesia could pursue, given Indonesia's significant exposure to climate-related risks.